"GREENBACKS;"

OR,

THE EVILS AND THE REMEDY OF USING

"Promise to pay to the bearer on demand"

AS A MEASURE OF VALUE.

By OBSERVER.

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THE present monetary condition of the people, imposed on their government by a gigantic rebellion, is attracting the attention of thinking men; and they are beginning to inquire, if money, or a measure of value, can be made of paper, without committing or sanctioning a fraud?

Who Makes Money?

Long ago it was asserted, and it has since been admitted by eminent writers on finance, that coining money and regulating the value thereof; or in other words, that the making of a measure of value, by which the worth of all things that are bought and sold can be measured, is a prerogative which cannot be safely intrusted to individuals, associations, or corporations, for it is an act of sovereignty. The same class of writers also assume, and assert as an axiom, that no material can be used as a measure of value, which is not of itself, as an article of commerce, of equal value, or nearly so, with that for which it is used as a measure, and for which it may be exchanged, for the use of an article of commerce, as a measure of value, cannot add value to it, because the custom, or law of trade, which governments did not make and cannot unmake, will not permit it. A government stamp is only for convenience; it is evidence of quality and quantity or weight and fineness, nothing more. The above admission, assertion, assumption, and axiom, have received the sanction of custom, and the confirmation of experience; yet there have been some, —there are some now, who doubt their truth, or at least pretend to, and are constantly urging further and new experiments to remove or confirm their doubts, or some other cause.

The use of Paper as Money.

The use of paper as money, probably had its origin in a lack of faith. Greedy creditors and delinquent debtors sometimes have treacherous memories; hence, differences between them may have sometimes happened. To avoid this, it seems likely, memorandums of transactions were made and sanctioned by the parties interested, as preliminary to negotiations that involved value and usury. We read, Deut. ch. xxiii. v. 20,—

"Unto a stranger thou mayest lend upon usury, but unto thy brother thou shalt not lend."

This shows that the custom of receiving and paying usury is very ancient, and that the Jewish lawgiver knew something of the evils which giving and receiving usury engendered in families. But the Jews, as we have been told, are a peculiar people, and may be considered by the Gentiles as a sort of exception. They are domiciled, perhaps synagogued, in all the commercial centres of the known world. They have no country, yet

claim their fathers had one on the borders of the Arabian desert, which was and is, as travellers, both ancient and modern say, mountainous; composed of barren, chalky cliffs, incapable of being made to support either men or beasts in large numbers, except as thieves or robbers. This country, they claim, their fathers left about the time the great channel of trade from the East to the West was changed from the land to the sea. Be these things as they may, the Jews are human beings, subjected to laws and vicissitudes as well as Gentiles. They are what they are, from their peculiar mode of life; they reap where they have not sown. Their hands are against every man's, because every man's hand is against theirs; and we find the uncircumcised and the circumcised are alike who adopt a similar mode of life, whether from social influence or individual energy.

Whether or no the Jews were the inventors or the discoverers of the method of obtaining interest on money owed, which is the basis of all our present schemes of banking, they, according to history, seem to have been its first successful "operators." The mode of "operating" first instituted, however, has since been subjected to many modifications by special legislation, and banking now means a special privilege, granted by a charter or a general law to receive interest, instead of paying it, on promises to pay. That the business of banking is a special privilege, is not now any mystery, for every one knows that no special charter or general law is needed to enable him to get interest on his own money; yet there is still some mystery about the methods by which bankers get interest on their promises to pay. This obscurity arises in some measure, no doubt, from the multiplicity of methods that have been adopted from time to time, for the accomplishment of the same object. They are as various, if not as numerous, as those adopted by professional gamblers to win money from the simple but ambitious.

Banking; Its Improvements and Effects.

The various modifications which banking has undergone, have been called improvements by those who instituted them; and perhaps they have been so in some cases: but in no instance has the principle of the Hebrew original been abandoned by the Gentiles who have adopted a Jewish mode of life. Though the changes called improvements have received the sanction of our State Legislatures, and promises to pay the bearer on demand have been used as money or a measure of value, they have not always been redeemed, and when they have not been, the holder has learned they were a fraud, because they were not worth as much as the thing which he had exchanged for them.

The results of the legal sanction of paper as money by these States, have been, as shown by experience, great and sudden fluctuations in the value given to, or anticipated for all articles of commerce; and it has sometimes caused values to be fixed in anticipation, on that which had no existence outside of the excited imaginations of men. These fancied valuations have been sometimes followed or accompanied by commercial revulsions which have, in an hour as it were, deprived the many of the products of their toil, which had been slowly and honestly acquired, and transferred it wrongfully, though perhaps legally, into the possession of a few designing men.

The wrongs that have been thus inflicted on individuals, by the use of paper as money, have sometimes reacted on the institutions that issued it, and they have caved in, or failed, and nobody or thing was held responsible, in law, for the loss thus imposed on bill-holders. But in our country, where it has been said that the distance from the pocket to the brain is not great; where legislators, who grant banking privileges, are held to be only agents for the people, and where laboring men are their constituents, legislators are looked up to as the proper parties to remedy the evils they by special legislation inflict; but in no case, thus far, have they assailed, by law, the principle of fraud on which all banking institu-

tions that issue paper as money are based, though they have made much talk, and applied a little action to remedy what they are pleased to call "abuses of Banking." These efforts have shown, if they have not demonstrated, that the greatest security a bill-holder can have against the frauds of the system is in the capacity, and moral—not the commercial—honesty of those who are legally authorized to issue, as money, promises to pay on demand, and that the most important prayer for a banker is, "lead us not into temptation."

Banking under Special Laws or Charters.

The first charters for banks, granted in this country, seem to have been given on the idea that those who received them were honest and capable men, and, in the absence of personal knowledge, we will assume that they were the best of men; but, in the business of banking, as in all others, the success, or the apparent success of a few, excited the desires of many, and some seem to have soon managed to work their way into the banking business who lacked both capacity and honesty. Up to this day, many attempts have been made to reform the abuses of banking, but not the first towards removing the temptation. Among the efforts of reform may be reckoned the various changes that have been made in the wording of special charters. These have been made, evidently, for the purpose of holding somebody or something responsible for the redemption of the promises to pay on demand, in cases where the banker that issued them failed to do it. Some charters have been worded to hold the private property of stockholders to redeem the bills issued under it, in case the bank should fail. There are, probably, such charters in existence now, and people yet receive bills issued under them, in the belief that they are well secured. If this is not the case now, it was so but a little while ago.

In 1857, a bank in the State of Rhode Island failed, on the circulating notes of which were printed, in a conspicuous manner, the words: "Private property of stockholders holden;" yet these notes have not been redeemed, at least not all of them, and it seems highly probable that the private property of its stockholders is either holden by themselves, or has been taken to pay the charges made for settling up the banking concern. The popularity of the Private Property scheme, however, seems never to have been great, and in the absence of positive knowledge, perhaps we may be allowed to assume, as the cause of its not becoming popular—its injustice; for, surely, it would not be just to involve the private property of a legislator for neglecting to dispose of stock which he may have honestly accepted as a present, yet there is a tinge of it incorporated into some of our banking laws; even the National Currency Act holds stockholders to the amount of their stock.

In some States there have been enacted what are called "Safety Fund Banking laws." These, at one time, were somewhat popular, but the banking that was commenced in accordance with them, soon outlived the popularity of the scheme, which was to hold the banks that were sound responsible for those that were rotten. Perhaps the slowness of its action may be considered as the cause of this scheme's not becoming more extended, and of its not maintaining the little popularity which at one time it seemed to have acquired. A young man, who might hold a note of a Safety Fund bank, under the law, at the time of failure, might grow gray with age without having it redeemed from the fund against which it was an acknowledged claim. The Safety Fund scheme of reforming the abuses of issuing promises to pay on demand, as money, was, however, adopted, or rather sanctioned by the laws of more States than the "Private Property" scheme, yet it did not suit this fast age, and was abandoned at a time when the confidence of the people in all bank promises to pay had been so shaken by bank failures, that the advocates of paper, as money, found much difficulty in devising, or concocting a scheme which they could have legalized. They, however, ultimately succeeded,

as a thief sometimes succeeds, who is pretty well known, in obtaining money from a Pawnbroker. Their scheme was to pledge securities for the performance of their promises, which shows the moral standing of the parties who labored for its introduction. This scheme of pledging securities for the fulfilment of promises, has received the name of "Free Banking," because it was sanctioned by a general law, which permitted all to engage in the business of banking who had the means and the desire, without obtaining permission by special charter.

Banking under General Laws, or Free Banking.

The reform of the abuses of banking—known as Free Banking—was not accompanied by any change in principle. The great evils, under the special charter schemes, were the uncertainties of calculations, consequent on the unsteadiness of values; the enthusiastic anticipations of wealth to-morrow, and the depressing realization of poverty the next day, and the game of chance character of all business transactions. All of these were aggravated by the Free Banking scheme, rather than palliated, because it enabled those to issue, as money, promises to pay, who could not have issued them under the charter scheme. It thus extended the evils, which it was proposed to remedy, by increasing the expansibility and contractibility of the currency.

Could we be permitted to judge of schemers by the results of their schemes, as we do of workmen by their work, we should, probably, be justified in saying, that this Free or Pledge Banking scheme, originated with those who had sought for a privilege to use, as money, their promises to pay on demand, by a special charter, but who, from their lack of commercial honesty or capacity, or of political energy or influence, had failed: hence, the proposition of a general law that would enable them to "operate." In this, it seems highly probable they would have failed, in consequence of the then prevailing prejudice against all bank promises to pay on demand, had they have neglected appealing to two of the easiest aroused and most potent propensities of man, viz.: his vanity, and his love of gain. The many are vain enough to believe they have no superiors, and that being permitted to be bankers is to enjoy, if not to possess wealth. By appealing to these feelings, the prejudice against paper, as money, was overcome, and a Free Banking law was enacted.

The Popularity of Free Banking.

Among the first "operators" for profit, under this scheme, may be found those whose moral law was based on the statutes of the State, as interpreted by "sharp" practitioners—those who never omit doing that which is agreeable to themselves, except to avoid the penalty of law, and those whose code of practice is to honestly owe every man they can. Had their scheme been first presented to those who had not been previously accustomed to the use of paper, as money, it, most likely, would not have received the sanction of a legislative body; had not the paper which had been previously authorized and issued as money, under special laws, have been, at the time this pledge scheme was concocted, in very bad odor on account of the many failures of chartered banks, it, probably, would not have been sanctioned by a general law; yet, to this general law this scheme seems to be indebted for all the popularity it has since attained, for that compelled the then existing chartered banks, which had always redeemed their promises to pay on demand in specie, except on special occasions, to conform to the pledge scheme. If the old and sound banks had not been compelled to conform, this new scheme would have been exploded, probably, by those who inaugurated it, in less than ten years after the general Free Banking law was enacted. As it was, the people soon learned that the evils of making money of paper, even under the pledge scheme, were not wholly removed by the general law reform of banking abuses. They complained, and their cry was heard and heeded by legislators, who manifested their sympathy for the sufferings of their

constituents by continuing to reform the abuses of banking. They amended, and perhaps improved the general banking law, and continued to amend and improve it, until its perfection, or the influence of those who "operated" under its sanction, in its imperfect state, popularized it so far that it became, in a modified form, the general banking law of several States.

This point gained, the first "operators," under the law, elected as the field of their future "operations" those States the general banking laws of which enabled them to get their fingers the deepest into the people's pockets. In this way, migrating "operators," who know no country except for gain, have accumulated fortunes, become bold, and have imposed their pledge scheme of banking on the Nation. They have done this, no doubt, with the intention and the hope of obtaining, under the sanction of a National law, millions where they obtained only thousands under the laws of the States; and probably, for doing this, they hope and expect to be canonized as patriots.

The Imposition of the Free Banking Scheme on the Nation.

We hold that the practices of men, when they differ from their professions, and are not wrongfully interpreted, are a better index of their opinions than their words. Following this as a rule, we have been unable to discover that either the Secretary of the Treasury (whom we hold to be a statesman and a patriot), or the bankers of New York city, Boston, and Philadelphia, were in favor of the Pledge Banking scheme in 1861. Most of those of Wall street, it is true, had previously conformed to it, but only as a necessity imposed by a State law, in the making of which they had no agency; they were obliged to conform, or to discontinue their business of receiving interest on money owed. But those of State and Chestnut streets have neither conformed to it nor adopted it. We, therefore, conclude that these parties did not intentionally impose the Free Banking scheme on the Nation; yet, what they did seems to have culminated in the "National Currency Act." Those who will examine and consider the present financial condition of the Nation, may possibly find the origin of the present National Pledge Banking scheme in some of the early efforts made by the Government to fill its treasury.

When the rebellion commenced, men, ships, munitions of war, and provisions were needed for the preservation and protection of our Government. These had to be supplied by patriotism and credit. At that time, the Nation's treasury was empty, or nearly so, and extra efforts had to be made to fill it. Among men, there are two methods of using credit—one by borrowing money and paying for its use, the other by making purchases to be paid for at some future day, at a price that will compensate for the delay in payment. Governments have no other just methods. At the outbreak of the rebellion, our Government sought means by the first of these, and we think it acted wisely in doing so. It asked for a loan, the amount of which we deem of but little importance, for our object is to consider mainly the principle of action, rather than the details of particular acts; we, however, shall endeavor to call attention to the different methods that have been adopted to use and sustain the credit of the Government, in the order they have followed each other.

At first the government asked for a loan of, as we will assume, ($12,000,000) twelve millions of dollars, for the use of which, for twenty years, it offered six per centum per annum. It obtained the loan, but not at the rate of usury offered, for it received but about eighty-five dollars for every one hundred it promised to pay, and was thus obligated to pay about seven per centum per annum interest, notwithstanding it had offered only six. If we assume that the government was at that time in need of flour, and that flour was then in the market at five dollars a barrel, it will follow that the government, by borrowing, paid five dollars and seventy-five cents a

barrel; the seventy-five cents for the use of the five dollars with which it bought its barrel of flour, and so of other things.

After making the one effort here noticed, to use its credit by a loan, it abandoned for a time that method of supplying its needs, and had recourse to that of buying on time. It however did not do this in the usual way of business men. It paid out as money, "United States Treasury Notes of a less denomination than fifty dollars, not bearing interest, but payable on demand by the Assistant Treasurers of the United States, at Philadelphia, New York, Boston, Cincinnati, and St. Louis." These were made receivable for all dues to the United States. This was a kind of an order system. When a creditor made a demand for pay, he was put off with an order, or rather with a series of orders, on somebody else; and if the order was not paid on demand by him on whom it was drawn, the government would receive it of any one in payment of its dues. That these orders or Treasury notes might be immediately available as money to those who received them, they were issued in the form of State Bank notes, of the denominations of five, ten, and twenty dollars, so that they could be used by the people as money, without exciting any particular attention. They however received the name of Greenbacks. The evident intention or cause of issuing these Treasury notes was, undoubtedly, the expectation of realizing a loan or its equivalent, without interest, so long as the people who received them kept them in their pockets.

We do not know how many of these notes the Secretary of the Treasury issued, neither the amount of them, but believe that he was authorized to issue to the amount of fifty or sixty millions of dollars. The authority for issuing these we have never heard doubted, and never expect to, but we have heard the policy questioned. They, however, were readily received as a measure of value, passed from one man to another as money, and for a time were received by the State banks on deposit along with their own notes. This condition of our currency would very likely have continued for years, and the effect of it would have been only an increase in the nominal value of things, proportioned to the increase in the amount of Greenbacks issued, had the Assistant Treasurers always redeemed them in specie on demand. But this they could not do, because, after the issuing of these demand notes their receipts of specie ceased, hence they could only redeem in specie to the amount which they held at the time these notes were first issued. Unless these demand notes were redeemed according to the expectations of those who received them, the State banks could not receive them, for what they received on deposit they were required, by the law of their existence, to pay in specie when that was demanded. The State laws, however, did not require them to redeem in specie United States demand Treasury notes, and the consequence was, notwithstanding the State banks did not dispute the authority of the United States to issue them, they refused, or threatened to refuse, to receive them on deposit. They however, to make the matter as easy as possible, continued to receive them, for reasons which will by and by appear, of those depositors who would take them back in payment for their checks. This was all the State banks could do without endangering their existence under the State laws; and this was doing something for the country. It was keeping demand Treasury notes in credit without charging the government any thing for doing it. Notwithstanding this, Treasury notes or Greenbacks lost credit, their value became less with business men than that of State bank-notes; and the Secretary of the Treasury learned that he could not continue issuing United States Treasury notes or orders on the Assistant Treasurers, payable on demand, without placing himself in antagonism with the managers of the State banks. The truth became obvious that the interest of the United States Government, which here means the people, and the interest of the State bankers, which here means capital, were antagonistic. The business of bankers being to receive interest on all they owe, and the business of government was, or it should have been, to pay interest to those only who had money of their own to lend.

To adjust this antagonism, or to compromise these differences, a consultation was held on Thursday, August 15th, 1861, at the American Exchange Bank, in the city of New York, at which thirty-nine banks of the city were represented. At this meeting the following plan, it is said, was agreed on for aiding the government. Of course the bankers were not in need of any aid.

First, that "an immediate issue be made by the United States Treasury Department of Treasury notes, * * * * * bearing interest * * * * * at 7.30 per cent., to the extent of fifty millions of dollars."

Second, that "the banks of New York Boston, and Philadelphia associated, take jointly this fifty millions at par, with the privilege of taking at par an additional fifty millions, October 15th, by giving their decision to the Department October 1st; and also at par fifty millions December 15th, by giving their decision December 1st, unless said amount shall have been previously subscribed as a National Loan. It being understood and agreed that no other government stocks, bonds, or treasury notes (except Treasury notes payable on demand, and the Oregon War Loan) shall be negotiated or paid out by the Government until February 1st, 1862."

Third, that "an appeal to the people for subscriptions to the National Loan to be made by the Government, and as the subscription for the notes progresses and the moneys are paid in, the same shall be paid over to the Government, or deposited with banks selected by the Secretary of the Treasury, with the concurrence of a committee of the Associates. * * * * * The Treasury notes issued to the Associates, so far as the New York banks are concerned, shall be received by the Loan Committee of the New York banks at ninety per cent., as a basis for issuing Clearing House Certificates to any bank desiring, under existing arrangements, (which must necessarily be continued)."

The change which the Secretary of the Treasury made in the method of obtaining money for the government, by issuing orders on the Assistant Treasurers or demand Treasury notes, payable by the Assistant Treasurers instead of coming into the money market for a loan, no doubt was the occasion of this consultation and agreement; yet the report itself, shows pretty significantly that the doings of the conference in aid of the government, were but little else than an effort on the part of the bankers, to make the Secretary of the Treasury their agent for getting control of the finances of the nation, so that they could get interest on what the nation borrowed. This conference was held in August, 1861, and the bankers then agreed to loan to the government fifty millions of dollars, with the privilege of taking at par an additional fifty millions in October, and another additional fifty millions in December,—

"It being understood and agreed [of course with the Secretary of the Treasury], that no other government stocks, bonds or treasury notes (except Treasury notes payable on demand, &c.) shall be negotiated until February 1st, 1862."

This seems a direct avowal on the part of the bankers, that they had bargained by the magic of banking for the privilege of receiving the interest on the money they owed the Nation until February 1st, 1862: on the condition they could loan one hundred and fifty millions. Of their ability to get interest on so large an amount in addition to their ordinary business, the bankers seem to have had some doubts, hence

"An appeal to the people for subscriptions to the national loan to be made by [their agent] the government."

That the bankers understood that they had bargained for the control of the Nation's Finances up to the time specified above, seems to be placed beyond a doubt, by the arrangement agreed on about depositing the loan. Their statement of this agreement is as follows:

"As the subscription for the notes progresses and the moneys are paid in, the same shall be paid over to the government, or deposited with banks selected by the Secretary of the Treasury, with the concurrence of a committee of the Associates."

That is, of the bankers. Can language be more emphatic, as to who is the

agent and who the principal, in case a difference should happen between the Secretary of the Treasury and the bankers?

No act of the Secretary of the Treasury, that we have ever heard of, has induced us to believe that he has been seduced by the bankers, notwithstanding this bargain seems to be mostly in their favor. He seems to have yielded his own opinions in favor of theirs, because of their great professional knowledge of banking, and their distinguished reputation for obtaining interest for themselves on money owed by them, or from a distrust of his own opinions, because of his little experience in financial transactions of such vast magnitude as those were which it became his duty, as Secretary of the Treasury, to negotiate. Should we, however, judge of his opinions by his works, as they were manifested before the conference of August, 1861, was held, we should say they were sound, though, perhaps, not exactly perfect. He had issued Treasury notes, payable on demand, without interest, in payment of demands against the Government; these he had issued in denominations of fives, tens, and twenties; so that those who received them would use them as money in their ordinary business transactions. Had these been issued on time, payable with interest, they would have been used as money, and the occasion for the August conference, probably, would never have happened. The issuing of demand Treasury notes, without interest, which the people used as money, instead of State bank-notes, had alarmed the bankers who operated under State laws; for they knew that the Secretary had the power, or could have it by asking for it, to issue Treasury notes payable on time, with interest, instead of those on demand without interest; and that if he should do this, their vocation would end, because their depositors, if they could get interest-bearing notes for their bills receivable, would not deposit them without interest, and if they could not get deposits without interest, the banker's business of getting interest on what he owes must cease. They knew that if the people should once get Treasury notes bearing interest, which they could use as a measure of value, every business man would be his own banker; hence the expression in the August agreement, which is in parenthesis: ("Except Treasury notes payable on demand, &c.")

This is evidently intended as an estoppel, to prevent the Secretary of the Treasury from issuing interest-bearing notes that would be used as money. The agreement on the part of the bankers, to accept Treasury notes of the denominations of fifties and hundreds, that could be used as money just as well as bank-notes of similar denominations, may have been a concession to the opinions of the Secretary of the Treasury, for there would be no more difficulty in computing the interest due on them, when used as money, than there is in computing the discount paid on paper money used that is below par. Yet, there are reasons for considering this concession doubtful. A loan of $150,000,000, which was the amount made by the two conditional additions contemplated in the agreement, was more than could be taken by banks, the united capital of which was but $120,000,000, without aid from their depositors, and large notes, with the interest offered by the Government, might tempt their best depositors to invest; hence the bankers may have had a desire to have small notes, because these might be taken by individuals whose means were small, and not deposited in banks; and to the extent these small Treasury notes might be taken by those who did not deposit in State banks, their deposits would remain unimpaired. Again, the use the bankers made of these notes by substituting them for gold in their transactions with each other through the clearing house, made them very convenient, perhaps desirable. For this purpose they were better than gold, for by using them they obtained interest on their medium of exchange for settling balances, and this they could not get on the gold, which they were obliged, by their own regulations, to keep in their vaults for that purpose. Hence we perceive that the issuing of small, interest bearing Treasury notes, may have been for the interest and accommodation of the bankers, rather

than a concession of theirs to the desires or opinions of the Secretary of the Treasury.

A result followed the August consultation, which indicates that an offer was made, or an obligation accepted by the bankers, to redeem the demand Treasury notes that did not bear interest, which the Secretary of the Treasury had already issued in payment of demands against the government. These had been paid out as money, yet no special arrangement had been made for their redemption beside that of making them receivable for all dues to the government. This made them as available as gold for the payment of custom duties, but no further, unless the banks would receive them on deposit. Their refusing to receive them on deposit, or their threatening to refuse them, was the apparent cause, as we have already seen for the consultation held; and the offer or obligation to receive them on deposit as they received their own notes and each other's with whom they exchanged, seems to have been a rod in the hands of the bankers, held by them over the head, or back, of the Secretary of the Treasury, as an inducement for him to become their agent, and they very soon found employment for him.

The bankers had agreed to loan the government $150,000,000, and had made arrangements through the clearing house, to use as gold the securities they were to receive for this loan, and to thus enable themselves to redeem the demand Treasury notes with the gold they held in their bank vaults. State banks are the creatures of law, and one of the conditions of their existence is, or was, the redemption of their notes on demand, in specie. The bankers who managed these had now undertaken to redeem, in addition to their own notes, $50,000,000 of demand Treasury notes, without interest, in case they were presented for redemption at their counters. Whether they were then able to do this or not, is more than we know; but results have shown that they very soon made an effort to rid themselves of this obligation to redeem with gold. This is obvious from the application to Congress made by the Secretary of the Treasury, now their agent, when it assembled, the December following; he then applied for authority to issue promises to pay that should be a legal tender. Whether or no this was done for the special accommodation of the banks, the reader can judge; the effect was to unconditionally release them from their offer or obligation to redeem the Treasury notes with gold; for should one be presented for redemption, after legal tender notes were issued, all they had to do was to give one that was a legal tender, in exchange for one that was not. The issue of Treasury notes that were to be a legal tender in the payment of all debts, public and private, except duties on imports and interest on United States bonds and notes, also released the banks from the obligation of redeeming their own notes, payable to bearer on demand, which the laws that gave to them existence had imposed, unless the law of the State could be enforced in opposition to the law of Congress. On the authority of the application of the Secretary of the Treasury for the legal tender note law, for they seem to have had no other, the banks suspended specie payments. This act of theirs received the sanction of Congress about two months after, by the enactment of the proposed law which authorized the issuing of legal tender notes. By issuing these notes, government made a measure of value of paper, so far as it made its promises to pay a legal tender, instead of gold or silver; yet a legal tender cannot be paid in the sense a promise to pay is paid. A promise to pay may be made for an article received, and then paid for by giving an equivalent; but it would have been very simple, to say the least, to have talked about paying for a five dollar gold piece when gold was a measure of value; because the metal in the piece was of itself, as an article of commerce, an equivalent for the article for which it might have been exchanged. Now, however, since paper has been made a measure of value, it seems quite sensible to speak of buying a five dollar piece of gold; at least those who are under the necessity of paying duties on imports find it so. There was, however,

an excuse offered, for making this change from gold to paper in the material used as a measure of value; which those who made may have thought a justification, they no doubt thought it plausible.

This was the great need the government was in, of men and munitions of war. These were all very abundant at prices that were reasonable, but it required money to get them, and that was not abundant; at least with the United States Treasurer. To get money it had been customary to pay for its use, but if the government did that, it would ultimately have to impose a direct tax on the people, which would be a task very objectionable to popular politicians, especially to those who have no visible means of living out of politics. These no doubt thought it would be better, for them at least, to get money without interest since they could do it by only making promises to pay a legal tender. The scheme, however, has about it an odor of duplicity, and the excuse is not very unlike the tale of a speculator, which he recites as a manifestation of his sympathy for him whom he is striving to victimize. Business men know when money is scarce or dear, things are cheap, and when money is plenty or cheap, things are dear. This seems to have been known to those who made of paper a measure of value, for they seem to have apprehended the change might make money plenty and things dear; so that articles bought with legal tender notes, without interest, might cost the government, which here means the people, more than they would when bought with money borrowed, on which interest was paid: or, in other words, they seemed to know that a barrel of flour for nine dollars in paper, for the use of which no interest was paid, might cost the people ultimately more than five dollars in gold, for the use of which for twenty years seventy-five cents additional interest had been paid; above six per cent. per annum. To prevent or to palliate this apprehended and unavoidable result of largely increasing the volume of money that was already in existence, they fixed a limit, beyond which, promises to pay should not be issueda s a legal tender. At first this was fixed at $150,000,000, and then afterwards expanded or extended to $150,000,000 additional. Notwithstanding this precautionary foresight the result they apprehended followed the emission of $300,000,000, for the government did actually pay nine dollars a barrel for flour, in legal tender notes, when it could have been bought with gold at its commercial value for less than six dollars a barrel. Those who made of paper a measure of value, seem to have foreseen, or apprehended, that the $300,000,000 of legal tender notes they had authorized to be issued as currency, would not be sufficient to supply all the needs of the government. In this, results have shown their apprehensions to have been well founded. To provide more currency without an increase of its volume was the next task; and to do this they authorized the Secretary of the Treasury to sak for a loan of the legal tender notes which had already been issued, to the amount of $500,000,000, and to offer six per cent. per annum for the use of it for twenty years, with a privilege to redeem it after five years. This shows conclusively that a reissue of the legal tender notes was contemplated after they had been redeemed or received as a loan, as the means of obtaining government supplies without increasing the volume of currency so as to make it like Confederate currency, worthless, or nearly so; for otherwise a loan of $500,000,000 would not have been authorized to redeem $300,000,000; the amount of legal tender notes which had been authorized.

Had not the Secretary of the Treasury redeemed, as he was authorized to do, the legal tender notes, with the five twenty bonds, the free bankers, probably, would not have been able to have imposed, as they have done, their scheme on the nation: but as he did redeem these notes with those bonds, with the evident direction or intention of a reissue that would require a continued redemption, it seems to follow that the national free banking was a sort of natural consequence of the understanding and agreement made at the consultation held in August, 1861; though there seems but little probability the parties to that, at that time, anticipated

any such result from their labors. It seems, however, to have been thought of very soon after, for along with the propositions of issuing legal tender notes and five-twenty bonds, which were made the December following, came the free banking proposition. But when it was first made its friends seem not to have been strongly represented in Congress, for, notwithstanding that body authorized the issuing of the notes and the bonds, they refused or neglected, at that time, to sanction the free banking project. The free bankers, however, seem to have been alive and vigilant; ever ready to offer their services for the public welfare; and there seems nothing singular in their being as ready to serve the Nation then, as they had been before to serve the States. At the next meeting of Congress the interest of the free bankers was better represented, for at that session the National Currency Act was passed, and it was followed during the twelve months after by a subscription to the five-twenty loan of $475,000,000, though during the year previous to the passage of this act, but $25,000,000 of the $500,000,000 authorized were taken. This shows as clearly as circumstances can show the truth, that it was the influence of the free bankers which ultimately carried this law through Congress. Thus the issuing of demand United States Treasury notes, payable by the Assistant Treasurers, and receivable for all public dues, led to the consultation of August, 1861; that this consultation resulted in an understanding and agreement, on the part of the government, not to issue United States Treasury notes bearing interest under fifty dollars, and on the part of the bankers, to accept at par, a loan of $150,000,000, and to receive on deposit from their customers, which then meant to redeem in specie, the United States demand notes, not bearing interest, already issued; that the inability or indisposition of the bankers to redeem in specie the demand notes already issued according to the understanding and agreement, led to the expedient of legal tender notes and five-twenty bonds; and that the five-twenty bonds were the cause or the pretext, claimed as a justification of the National Currency Act, of which the Secretary of the Treasury has said, (Annual Report, December 4th, 1862,

"This is no mere paper money scheme, but, on the contrary, a series of measures looking to a safe and gradual return to gold and silver as the only permanent basis, standard, and measure of value recognized by the Constitution—between which and an irredeemable paper currency, as I believe, the choice is now to be made."

Experiments.

Of this "no mere paper-money scheme," the Hon. Hugh McCulloch, comptroller of the currency, in his suggestions to the managers of the National Banks, dated Washington, Dec. 30th, 1863, says, that

"Every banker under the National system * * * * is engaged in an experiment; which, if successful, will reflect the highest honor upon all who are connected with it, and be of incalculable benefit to the country; but which, if unsuccessful, will be a reproach to its advocates, and a calamity to the people."

This we accept as good authority for saying, that this "no mere paper-money scheme, but a series of measures looking * * * * to gold and silver as the only permanent basis, standard, and measure of value recognized by the constitution," is but an experiment. As we have been told, by a very eminent man, that "a political *experiment* cannot be made in a laboratory, nor determined in a few hours," so we conclude it will be with our monetary experiment; and therefore do not expect to know its results immediately. Yet, so far as this "no mere paper-money scheme" resembles other banking schemes, which are already known to history and experience, we, perhaps, may be permitted to form and express an opinion.

Where banking first originated, or who were its inventors, we have not learned; but presume its origin was among a commercial people. We have been told it once existed in China, and there passed through many, if not all the phases of modern banking; producing revulsions, like those

of more modern times, until it became worn out and abandoned. This was long before its invention, discovery, or introduction into Europe. Be this as it may, the history of modern banking shows its origin to have been, in an invention or custom, established, by or among migrating merchants,—now called peddlers, for the safe transmission of their money from one place to another; and it is used for such a purpose now, by parties who establish themselves in commercial centres, and make there business useful. The first step in banking from the useful towards the useless, or rather pernicious—the making money of paper—we are told originated in loaning the money which was held on deposit for safe transmission. The reason given for this is, the great interest taken by the loaner in the welfare of the borrower. The next step seems to have been the loaning of promises to pay on demand, on the credit of deposits held. The reason for this, is said to have been, the great injury suffered by the public, when money was permitted to lie idle; and as one dollar could be made to redeem ten, which are used in ordinary business, it would be a great public benefit to issue, as money, promises to pay the bearer on demand. By these "operations" the loaner obtained usury or interest on money that belonged to another, and on promises to pay of his own creation. Before the issue, as money, of promises to pay began, deposits were made wholly in specie, for nothing else was then recognized as money; hence when promises to pay were loaned, they were supposed, and at first, probably really were the representatives of specie, specially held for their redemption. On this assumption, all special and general banking laws have been based, that were enacted in this country prior to the "National Currency Act." They have all provided—in words at least—for the redemption in specie of the promises to pay which they have authorized to be issued as money; but there is nothing of the kind in the National Free Banking Law. That requires for the redemption of its promises to pay, nothing but promises to pay. Thus demand legal tender-notes are paid to the creditors of the government, then taken back as a loan, and interest-bearing bonds given in exchange for them. These interest-bearing bonds are to be received in pledge, and demand pledge tickets to represent their value, or nearly so, which can be used as money, are to be given in exchange. These tickets, which can be used as money, if they are so used, are to be redeemed in the lawful money of the United States—which means demand legal tender notes; for when this law was enacted no interest-bearing legal tender notes had been authorized or issued. By this we see that the comptroller was right, so far as specie is concerned, when he said that this national "no mere paper-money scheme" was but an experiment.

Bank Magic.

If any would learn what is usually called the science of banking, but which is really the magic of getting interest on money owed, they will probably find it well to heed the historic facts noticed above, viz.: that banking originated in receiving deposits for the accommodation of depositors; that the issuing, as money, promises to pay on demand, is based on the credit of deposits; and that the principle of modern bank magic is to get interest on both deposits and promises to pay. Those who do not clearly perceive and fully understand this principle cannot become eminent in the business of banking. The history of modern bank magic shows that various methods have been devised by bankers for obtaining interest on other people's money; and this, both with and without its owners' knowledge. We will notice, briefly, three of these; *First*, getting interest on money that belongs to stockholders, which is done with their consent and knowledge. *Second*, getting interest on money that belongs to depositors, which may be done with their knowledge, possibly with their consent, though the manner of getting it indicates a desire to do it without their knowledge or consent. *Third*, getting the interest which may be paid on securities pledged for the redemption of pledge tickets, which the people carry in their pockets as money, without interest. This may be done by

the magic of free banking; and in cases where the interest is paid to parties who have not of their own the value of one dollar invested in the securities for which they receive interest, there is neither knowledge nor consent about it—all is law. On these three methods modern bankers mainly rely for existence and success; some on one, some on two, and some on all three; and hence these methods are so mixed in their application that we do not expect the uninitiated will clearly perceive the correctness of our descriptions of the magic of banking, any more than we should expect the blind to clearly perceive the correctness of a description of colors.

Bankers who have been specially authorized by charters to commence "operating" for the receipts of interest on money not their own, have usually begun business by making or creating stocks, as capital; the amount of which has often, perhaps always been limited by law. When these stocks have not all been bespoken before they were issued, as they sometimes have been, or subscribed for, they have been offered in the money market for sale, and those who desired, or were persuaded to take the risk of banking for the profits offered have taken them; perhaps for the purpose of making a respectable place for a very respectable acquaintance. But if we can believe in the whining benevolence claimed by bankers when they have asked for charters, or for the renewal of them, the risk of their stocks has generally been taken, or the offer of them accepted, by widows and orphans. This may prove that bankers have a special regard for the interest of those who are least qualified to look after their own. To the widows and orphans, or the stockholders, dividends are paid; and as a general rule, a little more is paid as dividend, than is allowed to be received as interest by the usury laws. This seems to be done to create or to sustain a credit for the institution, for the evidence of bank reports is, that the dividends paid are not wholly collected on the capital created by its issue of stock. In fact, the creation of a bank stock, and the paying of dividends on it, seems only a sort of lure to entice those who have money of their own to deposit it in the bank; for it is on the interest received on depositors' money, that bankers of one class depend for the means to pay the salaries of officers, expenses of banking house, clerk hire, &c., and quite a portion of the dividends. That this is the case with the best of our banks seems evident, if it is not proved by the following statement of the banks in the city of New York, for the week ending March 12th, 1864:

Capital,.....$70,308,737	Specie, ...$20,750,405
Deposits,.....168,044,977	Loans and Discounts, 189,757,764
Circulation, ...5.918,807	

Now if we deduct from the capital of seventy millions the specie on hand and the cost or value of the real estate, fifty-four banking houses, we will not have, probably, more than thirty millions of capital that is on loan or discount; and the interest on this at six and seven per cent., six on short and seven on long loans, as prescribed by law, cannot pay the dividends, at from seven to ten per cent. on the whole amount of seventy millions of stocks or capital; to say nothing of officers' salaries, clerk hire, &c.: hence the lure of stocks and dividends, to "make a credit" with depositors. The importance of this will be seen by looking at the above statement, the $189,757,764 of loans and discounts, all of which, except the balance of capital as above, are made from the deposits of $168,044,977 which belong to depositors; and for the use of which the banker pays no interest. We here have the reason for the opposition of bankers to every measure of the government that may tend to reduce their deposits; and may also learn the value of depositors to bankers. The former are the footstool on which the latter stand. It is from the interest received on depositors' money rather than on that received on the value of bank stocks, that bankers live, make fortunes, and sustain the credit of their institutions.

Bank-bills, notes, circulation, or promises to pay the bearer on de-

mand, are not of much account with this class of honorable bankers. To them, circulation is about what a shop-card is to a tradesman already in a well established business; a sort of customary convenience which they can afford to do without: at least such seems to be the fact according to the above statement. Only $5,918,807 circulation to $70,308,737 capital, which is but about eight and a half per cent. as the average of the whole fifty-four banks, while some of them have not even one per cent. circulation.

The City Bank.....with a capital of $1,000,000 has no circulation.
The Bank of America " " 3,000,000 has of " $7,117
The Bank of Commerce " " 9,000,000 " " 1,705

The fifty-four banks, from the statements of which we have made these extracts, are, most of them, but not all, "operating" under the general or free banking law of the State of New York. Between the statements of those which are under special laws and those which are under general, we perceive no difference; in fact there is none, for the success of them all, both those under the general law and those under charters, is the result of the commercial honesty and capacity of those who manage them; and not of the State laws, to which they are obliged to conform. They obey the laws of trade, and also that law of humanity, which, in violation of the laws of justice holds the innocent responsible, and punishes them for the sins of the guilty.

Bankers who depend for their profits on their capital and circulation, or rather on the money they receive for the stocks they create, and their promises to pay the bearer, which the people carry in their pockets as money, may be, commercially speaking, as honest as those who depend on their capital and deposits; nevertheless the former, perhaps innocently, inflict on the community evils which the latter do not, at least in so great a degree. Those who "operate" with capital and circulation, if they manage prudently, may not attract any particular attention among those of their own generation; for they generally manage to redeem all the promises to pay they issue as money, in a manner satisfactory to the holders of them; but a philosophic observer cannot fail to see in the next generation, the evils of social inequality, which their "operations" produced. They supplied the shrewd schemer with the means he used to legally rob the honestly industrious of the fruits of his toil; and thus produced social distinctions which a patriotic, democratic statesman cannot view with indifference. They effect this public injury by increasing the amount of their promises to pay, as money, when business is good, and decreasing when business is bad, for their own individual gain. They thus engender and arouse into active operation, those paroxysms of speculation, which seem inherent in, and inseparable from, a large and rapid increase of the circulating medium of a community, which end in financial revulsions that shake the commercial world, by almost totally annihilating that confidence between man and man, on which commercial prosperity depends. Whether the prudent banker "operates" under the sanction of a special or a general law, the evils he produces are the same; and are the very basis on which his means depends.

But the magic or business of banking has not been, any more than others, wholly in the hands of those who are honest, capable, and prudent, commercially speaking, for those have been engaged in it who lacked all these qualifications—who knew no honesty, except that which was, or might be made to appear, legal; who had no capacity except for extravagance; who knew no prudence except temerity; and whose code of practice, had neither moral law nor the law of humanity for its basis. These obtained special charters, either from log-rolled legislatures or by purchase, and the pledge scheme of banking was the result of the "abuses of banking" they made manifest. And what has the pledge scheme accomplished more than the charter? Has it deprived dishonest or incompetent bankers of business? or has it secured to the bill-holder, the redemption of the pledge tickets which have been issued under its sanction? We

have now lying before us two pledge tickets which read thus: "State of Michigan. The Government Stock Bank will pay one dollar to bearer on demand. Ann Arbor, July 1st, 1851. Secured wholly by pledge of United States Stock. Countersigned and registered in State Treasurer's office. A. Bailey, Asst. Treas.; E. R. Tremain, Prest." These were issued under the authority of a special law—a charter; and those who were thus authorized to issue them have refused to redeem them. At the time they refused to redeem, or in more common language, at the time this bank failed, we held some of the pledge tickets it had issued as money. These we sent by mail to the State Treasurer for redemption. He acknowledged the receipt of them, by sending us a certificate, acknowledging our claim on the assets of the bank, as provided by law. This is dated "State Treasurer's Office, April, 24th, A. D. 1855." In due time, and after due notice, we returned our certificate, for our share of the law's provisions. The certificate was returned, indorsed as follows: "State Treasurer's Office, Lansing, Sept. 28th 1855. Paid on the within * * * * dollars, being a dividend of forty cents on account of resources arising from sale of stock security. Theo. Hunter, Dept. St. Treas." At that time United States stocks were worth in the money market about par, yet we have received, only, the forty cents, for each dollar the pledge tickets represented, though they had been given by the agent of the State and signed by the State Treasurer. We have been told as a reason for not receiving any more, that there was an over issue of pledge tickets, which, if true, shows that the State of Michigan makes the ticket-holders responsible for the loss occasioned by its own officials.

In 1857, we held some of the pledge tickets given to the bankers of Indiana, by the banking department of that State. These had been issued, and we received them as money; but during the "panic" of 1857, those who issued refused to redeem them, as the general banking law of that State required, and consequently these banks were settled up according to law. On the first of January, 1858, the following notice appeared in the newspapers:

"SUPERINTENDENT INDIANA FREE BANKS.—The notes of the following banks are redeemed by the Auditor of the State, viz.: Agricultural Bank at par; Atlantic Bank at 80 cts.; Elkhart Co. Bank at 97 cts."

And so of twenty-five others, at rates varying from 80 cts. to par.

We held at the time, notes of several of the banks named in this list—immediately forwarded them to the Auditor, and received from him the following reply:

"OFFICE OF THE AUDITOR OF STATE INDIANA,
BANK DEPARTMENT,
Indianapolis, Feb. 1st, 1858.

"Yours of the 28th ult. is received with enclosed as stated. I send you herewith * * * * * proceeds of the same. I also return you one Elkhart Co. Bank, the securities of which have been exhausted, and all the circulation properly issued by this department, as shown by the books, has been redeemed. Yours, &c.,

"JOHN W. WOOD, Auditor of State. By H. H. DODD."

The note returned reads thus, "INDIANA, No, 10,928 The ELKHART COUNTY BANK will pay ONE DOLLAR on demand to bearer, GOSHEN, Oct. 1st, 1853. SECURED BY PLEDGE OF PUBLIC STOCKS." And signed by ———, Register; ———, Cash.; ———, Prest. As Mr. Wood did not state that this note was not genuine, but that all the circulation, properly issued by the department, as shown by the books, had been redeemed, as his reason for not redeeming this one, as by his advertisement, the inference seems to follow, that he held the bill-holders responsible for the mistakes or omissions in the books of his department. Beside the notes we sent to the Auditor, we held those of four other banks of that State, all "SECURED BY THE PLEDGE OF PUBLIC STOCKS," which were not named among those to be redeemed by the Auditor. By

advice, we sent these to a banking office for collection, and received in reply the following:

"INDIANAPOLIS, Feb. 12, 1858.

Enclosed I return the notes received in yours of the 10th inst. They are entirely worthless. Yours, ———."

As we have not heard of any action on the part of the State, to dispose of the securities pledged for the redemption of these notes, we infer that it did not hold any, or if it did, that the proceeds were wholly absorbed in the expenses of a legal settlement: a contingency not uncommon in the settlement of assigned estates. Be this as it may, no bank promises to pay, issued under the authority of a special law or charter—not even those of the Farmers' Bank, Gloucester, R. I., the Eagle Bank, New Haven, Conn., and the Franklin Bank, New York City, have ever been worse than "worthless;" and that is the exact value of some we have already noticed, that were issued in accordance with a general or Free Banking Law. We have thus learned that pledge tickets which have been issued, professedly at least, to protect the toiling millions against loss, are no better than notes issued by chartered banks.

The reform of the abuses of banking, that has been effected by the adoption of the pledge scheme, indicates pretty significantly, that *it* was a device of men learned in the magic of banking, who lacked either the honesty or the capacity, or both, necessary to command the commercial confidence needed for success in the business, under special laws, which required capital and deposits, and these could not be had without first acquiring the confidence of capitalists and business men; hence the general law—pledge scheme, which seems to be a compound of the arts of swindling, condensed into respectability by the process of legalization. For those who had imposed on the people "entirely worthless" paper as money, by either a "log-roll" or a purchase, the pledge scheme of banking seems a license for continuing their business, by only changing the manner of doing it; and that has been an improvement—for themselves. Instead of "operating" secretly, as they had done in purchasing charters, and operating under the cover of previously established credits, they "operated" openly, and seemed to be proud of doing it, as legal bankers, on the credit of securities pledged. Their pretext for the proposition of a general law, was the security of the ticket-holder; their object seems to have been to obtain the interest paid on the securities pledged; and the result has been the establishment of banks of circulation, instead of banks of capital and deposits—and of loans or discounts. Their object, however, they so shrewdly kept out of sight, under the cover of their pretext, that even now, some well-informed men on business matters, labor under the delusion, that those who bank on pledged securities must own them. Yet it is no secret with those who have learned the magic of free banking, that securities have been pledged; that pledge tickets for them have been issued and used by the people as money, and the interest paid on these securities has been received, legally, by those who did not own the value of one dollar in them. Should any doubt the value of these tickets, the banker will assure them that "they are well secured, according to law."

That bankers who had managed well, and succeeded under the authority of special laws, have pledged securities which they owned will not be denied; and also that others have done so who have conformed to the letter of the law, perhaps to its intention, will likewise be admitted; for it would have been unaccountably singular if men of business had not done this, under the inducement of the general law, in a commercial community like ours. Manufacturers or Merchants who were doing business with their own capital, could purchase securities, pledge them in accordance with the Free Banking Law, obtain the pledge tickets, which to them would be payment for the securities pledged; because the tickets would be to them money, with which they could continue their business; and then, according to law, collect the interest paid on the securities by

a State Superintendent of Banks, on the money they were using in their business. Such magic would not be a violation of law, even if the people were taxed to pay the interest on the securities pledged for the redemption of pledge tickets which they held as money without interest. A stock "operator" could put all his capital—and more too—into securities, and then use a State banking department for holding them for an advance, by pledging them, and using the tickets for continuing his business, or paying for the stocks, in case he bought more at any one time than the amount of his own capital. He could receive the interest paid by a State banking department on the securities he had pledged, and with that he could pay somebody for keeping his pledge tickets in circulation, that is, in the people's pockets without interest, until such time as he could realize a satisfactory advance; then sell out, collect his tickets, retire them, deliver his stocks, and pocket the difference between the buying and selling price. State Free Banking Laws need not be violated by such an "operation," and money has been made by such practices. Again, bank speculators, or operators, who seem to have been engendered by the State Free Banking Laws, can purchase securities and pledge them; use the pledge tickets as money, by putting them into circulation; and then sell their bank, which means the pledge tickets that have been put into circulation; that is, into the people's pockets without interest, and the securities pledged to redeem them, for which interest can be received, so long as the people are induced, as bankers only know how to induce, to hold them. After the sale, the bank speculator may discredit the tickets, as money, by refusing to receive or to buy them; and thus bring the securities he pledged into the market by a forced sale, purchase them at a decline, which will be his gain and the ticket-holders' loss; and then begin his next speculation. This is descriptive of that which really has been done under the sanction of State Free Banking Laws, and of what may be done again without violating the statutes of the States. Other "operations" than those we have described, equally legal, equally honest, have been made, which we will not notice, lest we tire the reader; yet they may be made again.

The first general banking law was enacted by the legislature of the State of New York, in the year A. C. 1838. Since then, many amendments, improvements, or alterations have been made in it; and several other States have adopted modifications of it, each after their own manner. Under these laws, as they have heretofore existed and now exist, the paper-money of the country has been increased, beyond its commercial needs, by bankers generally, and especially by bank speculators, who have made a business of exchanging or pledging securities for pledge tickets which they could legally impose on the people as money, and then selling the bank.

Panic of 1857.

In 1857, the results of this practice culminated in what was then called a *panic*. Everybody almost seemed to wonder why such a revulsion in business happened. Many said there was no cause for it; yet they seemed not to believe what they said; for they, all of them, would assign some probable cause. Among those who assigned causes were some able writers on finance; but none of these, whose writings we saw, seemed satisfied with their own explanations. The real cause was the great increase of paper, as money. The usual effects of such an increase, had, in this case, been aggravated by the "operators" under the Free Banking Laws of the States; and the pledge system, which the people believed made "paper-money" secure, being new, seems to have been the cause of the mystery in which that "*panic*" was involved. For several years previous, business had been good. The usual effect of adulterating the currency of a community was experienced. Many more were trying to support themselves, and to accumulate fortunes, than those who maintained themselves by labor could support; and the large

amount paid, as interest, for the use of the increased amount of free bank circulation, had absorbed all the surplus proceeds of the labor of many previous years. The community had been consuming more than it had produced; or, in other words, more were trying to live on the interest of what they owed, than could do it. This was the cause of the "*panic*;" at least, such a cause was adequate to such a result. Yet no author, whose writings we saw on the panic of 1857, made any mention, or any allusion, to the great amount of interest collected by the bankers, as the cause of the community failing or coming to want. The people seemed not to understand that they had been gambling—or in more fashionable phraseology, speculating. with professional bankers, until the table had won all the money staked on the game. Financial revulsions may seem spasmodic to those who suffer by them; yet there is about their occasional visits a sort of periodicity. Since the introduction of banking into this country their periodical returns have been about as regular as the paroxysms of ague and fever, after due exposures to autumnal miasmas; and this regularity will probably continue, so long as their cause is permitted to exist. To remove this, the people have only to authorize the use of government interest-bearing notes, as a currency, instead of demand State bank-notes; on the one, the holder may receive the interest, while on the other, the banker receives it; especially under the "National Currency Act." United States Treasury notes based on the indebtedness of the government, would decrease, when business is good, and increase when it is bad, and thus prevent "*panics*," which State Banks promote and aggravate by increasing the currency when business is good, and decreasing it when it is bad. Should any, at first sight, deem it strange, that a monetary system so useful and so simple, has not been adopted by the United States Government, especially in this crisis, they will probably perceive, after a little examination and some consideration, that it would have been more strange if the government had adopted it; for the practice, for many years past, in this country, has been for bankers to select their agents or attorneys, as the legislators of the people; to have them regularly nominated; and then to secure their election by using money to induce laborers to vote for them. Bankers have not rested here, but have used their influence in legislative halls to have their agents placed on committees, if not at the head of them, before which all business that affected their interest was likely to come. Therefore, those who will examine and consider the practices of the past, will not perceive any thing strange in the fact that the government has not adopted the useful and simple method of supplying the people with Treasury notes that bear interest, which would answer all the purposes for which they need money in this crisis. The government has the power to coin money, and to regulate the value thereof; and it will exercise this power, if the laboring portion of the community will attend to their own needs when they go to the ballot-box, instead of the wants of politicians.

As we have seen that men of business could, under the sanction of State Free Banking Laws, duplicate their capital and use it to the public injury; that stock speculators could use State banking departments to make the people carry their stocks for an advance; that bank speculators, or those who made a business of establishing free banks according to law, and then selling out the shadows of them, have been engendered and hatched into life; that those who had no capital of their own, and who hardly deserve the name of men, could establish themselves legally as free bankers, and then receive the interest paid by the people on the securities pledged; and that the above described operations resulted in a panic: we conclude that those who form their opinions, as we have been compelled to entertain ours, by what they have learned of banking, or getting interest on money owed, from history: and by what they have learned from experience and observation, regarding the free banking that has been sanctioned by State legislatures, will not entertain any very high expectations, except they be free bankers, regarding the results of our "National Cur-

rency Act." Is the moral atmosphere of the capital of the Nation more pure than that of the capitals of the States? Is the distance from Wall Street to Washington any greater or more difficult to pass over, than that from there to Lansing and Indianapolis? Can we expect better banking in the one than we have had in the others?

In the absence of any positive knowledge regarding results, which we deem it probable our National Currency scheme will force upon us, perhaps we will be justified in assuming that our National Free Banking Law will neither allow nor permit such "operations" as have been sanctioned by the States. Yet it has been stated, and in a public manner too, by those whose positions as bankers, seem to entitle their sayings to some consideration that our "National Currency Act"

"is only a modified form of the New York Free Banking Law of 1838, with the best points of the State law left out."

Whether or no this statement be correct, we have already seen that it contains no specie clause. By examining it a little further, we can learn that it does not contain even the ideal of a redemption in specie of the pledge tickets it authorizes the use of as money. Bankers, in accordance with the National Currency Act, are required to redeem

"in the lawful money of the United States, * * * * when payment thereof shall be lawfully demanded, during the usual hours of business, at the office of the Association"

that issues them. (See Act, Sec. 25.) Any neglect in complying with these conditions regarding redemption, subjects an Association to the penalty of missing the receipt of the interest in gold, payable on the securities pledged; and perhaps, but not very likely, (unless a nincompoop should commence banking), to the loss of the ten per centum margin, retained by the Comptroller as a difference between the amount of securities pledged and the amount of tickets issued to be used as money. By this it appears that the national bankers will not need any specie to redeem their pledge tickets; for the lawful money of the United States is demand Treasury notes that are a legal tender. Bankers are not even required to use, for banking purposes, the specie which the government has promised to pay them on the securities pledged. Again, The National Currency Act, Sec. 41, requires

"that every such Association shall at all times have on hand, in lawful money of the United States, an amount equal to at least twenty-five per centum of the aggregate amount of the outstanding notes (pledge tickets) of circulation and its deposits."

This requires no specie, and not even the demand Treasury notes without interest; for, since the passage of this National Currency Act, the Treasurer has issued Treasury notes, payable one and two years after date, that bear interest at five per cent. per annum, and which are a legal tender for the amount they are drawn for: hence these are lawful money of the United States, and can be used by the bankers instead of demand notes that bear no interest. Whether these were issued for the special accommodation of the bankers is more than we know, but that they intend to use them for redeeming their pledge tickets, is evidenced* by the statement made in a circular soliciting subscriptions for a national banking concern in the city of New York, which is signed by the parties interested in putting it into "operation." This interest-bearing lawful money the bankers will probably at all times have on hand equal to at least twenty-five per cent. of the whole amount of pledge tickets they may have in circulation, or outstanding, and of all their deposits besides, provided they can get any; because these notes will always be a legal ten-

*"National banks are not required to lose the interest on a large amount of gold kept on hand to meet their circulation, but may keep in lieu thereof legal tender notes which bear five per cent. interest." Fourth, advantage over State banks, as set forth in a circular dated New York, February, 1864.

der, to pay depositors when they call, or to redeem their pledge tickets, should they be presented for redemption, and it will be a good business to keep them on hand to the whole amount of their pledge tickets. Thus, bankers who pledge one hundred thousand dollars, in five-twenty bonds, will receive interest at six per cent. per annum in gold, for the whole amount, and pledge tickets which they are authorized to use as money for ninety thousand dollars. These pledge tickets they can loan to the government directly, for the National Currency Act, Sec. 20, says they

"shall be received at par in all parts of the United States in payment of taxes, excises, public lands, and all other dues to the United States, except duties on imports."

Hence, they can make the loan of them direct, because "*all other dues*" must necessarily include loans from those who agree to make them. And if the government should refuse to receive them directly, they can be loaned indirectly, by exchanging them for the five per cent. interest-bearing notes that are a legal tender. Such an "operation" would pay bankers about ten and a half per cent. per annum—six on the one hundred thousand pledged, and five on the ninety thousand received in tickets; which will be a tolerably fair business, especially for such as have no capital of their own. The expenses of office and clerk hire in such kind of banking need not be much.

As those who have money on deposit in banks, without interest, may possibly prefer having it in their own possession or on special deposit, in five per cent. interest-bearing legal tender notes, our National Banks possibly may become banks of circulation only; which, being interpreted according to present practice, means the magic of putting into the people's pockets, and keeping them there as money, pledge tickets which bear no interest, while the bankers are receiving the interest on the securities pledged, which the government collects from the people who hold the pledge tickets. This will not be the way the bankers under the charter scheme got the interest on what they owed out of the people's pockets without their knowing it, or how it was done; but an improvement on it; for this makes the people pay interest on the money they really loan, and pay it too to those who have none to loan, and makes the government an agent of this injustice. And this is not all, for the National Currency Act makes the government the redeeming agent for all who bank under it. It says, Sec. 20, that the pledge tickets issued under it

"shall be received at par in all parts of the United States, * * * * for all salaries and other debts and demands owing by the United States to individuals, corporations, and associations within the United States, except interest on public debt.

Hence, as the government pays them at par, as we have seen before, and also receives them at par for all taxes, excises, public lands, &c., it becomes the National bankers's agent for receiving and paying out his pledge tickets. As it thus agrees to receive them from everybody, and says it will pay them to everybody, even to senators and members of Congress, nobody will think of sending them for redemption to the bankers who issued them, any more than they would think of sending for redemption a gold coin to the mint that issued it. If we assume, however, as possible that some National bankers may issue a greater amount of these pledge tickets for circulation, as money, than they provide of interest-bearing legal tender notes to redeem them, which are lawful money of the United States; and that a contingency may arise which may cause this surplus to be sent to them for redemption, at their office during the usual hours of business, they can pledge them for the lawful money of the United States, with those who have it, for nearly the full amount for which they were issued, for they will be good security to raise on, being well secured by United States stocks. The extra expense of the second pledge will not be much, when compared with the interest received on the first, because they can be very soon taken out of the second, and again put into circulation, as they will always be in good credit, being a

National Currency, and not like the notes of chartered banks that have once failed and been resuscitated by a purchaser.

We have been told, as we have before stated, that this "National Currency Act" is "no mere paper-money scheme, but, on the contrary, a series of measures looking to gold and silver" (probably a great way off) "as the only permanent basis, standard, and measure of value recognized by the constitution." Yet we have failed in discovering in any of the series of measures looking to gold and silver, any specie consideration, except in the interest paid on the securities pledged; and the National banker is not required to use even that in his banking business. The whole series of measures: the issuing of demand legal tender notes; the loaning of them to the government; the receipt of interest-bearing bonds in their stead; the pledging of these bonds, and the receiving of pledge tickets that can be used as money; and the redeeming of the pledge tickets with the lawful money of the United States, when they may be presented in a legal manner for that purpose, are only paper measures, by which National Bank magicians, who may or may not own the stocks pledged, may receive the interest, which the government collects from the people who use and hold the pledge tickets, and who are really the owners of the loan for which they are compelled by the government to pay interest to bankers. As the present lawful money of the United States is paper—either demand or interest-bearing notes,—there is nothing about this "no mere paper-money scheme" but paper; therefore, if it is possible to consummate the "experiment," it may "reflect the highest honor upon all who are connected with it, and be of incalculable benefit to the country; but which, if unsuccessful, will be a reproach to its advocates, and a calamity to the people."

The Remedy.

Travellers who miss their way and discover they are not going in the direction they intended, usually extricate themselves from such difficulties, by retracing their steps as well as they can; and, perhaps, we may be allowed to assume, without being considered absurd, that wise statesmen may, possibly, do likewise, in relation to the nation's monetary difficulties, when by so doing they can, at least, palliate the evils of the present, and possibly prevent them from becoming aggravated in the future. The results arrived at by the violation of the laws of trade, in monetary transactions, are as well known to business men, as the results which follow the violation of the laws of gravitation are known to civil engineers; and it seems highly probable, that our bankers knew, when our government first missed its way. We have already seen that issuing demand Treasury notes, payable by the Assistant Treasurers, receivable for all public dues to the government, which were used by the people as money, was followed by a consultation of bankers; that the consultation was followed by an agreement "that no other government stocks, bonds, or Treasury notes" than those which bore seven three-tenths interest, which the bankers had agreed to "shall be negotiated or paid out by the government until Feb. 1st, 1862, (except notes payable on demand, &c.);" that this agreement led to or was followed, before the specified time by a suspension of specie payments by the banks, and on the 1st of March, by a violation of the laws of trade—by an issue of demand Treasury notes that are a legal tender, and made of paper a measure of value. By taking the back track from the Treasury note that is a legal tender to the demand, Greenback, payable by the Assistant Treasurers, the evidence is pretty clear that the point of departure from that financial track which is sanctioned by the laws of trade, was in the wording and not in the issuing of the demand Treasury note, that did not bear interest, but which was made payable by the Assistant Treasurers, and receivable by the government for all dues to the United States. Had these been made payable on time, with interest, instead of payable on demand, probably, no consultation would have been held,—certainly none

would have been needed—for the understanding and agreement not to issue Treasury notes, "except on demand, &c.," for such would have been already issued; and would have answered all the purposes for which money is needed by business men, who are not engaged in trade with foreign countries. Had time notes been issued, instead of demand notes, the government would not have had, probably, any occasion for suspending specie payments, even though the State banks might have suspended; because, time notes, which are good, payable with interest, are more desirable than gold and silver. They would have been received by the State banks, as evidenced by their acceptance of the seven and three-tenths loan, already noticed, or as they have received United States Certificates of Indebtedness, bearing interest, in exchange for their own promises to pay the bearer on demand. They would have been received by the merchant, in preference to State bank-notes or checks, such as he had been accustomed to deposit without interest, because on them he would receive interest, until he used them for replenishing his stock in trade, or in the payment of a time purchase. They would have been received in preference to gold by those who had money to invest, because they would have been an investment already made in the best of securities. They would have been received by everybody in preference to State bank-notes, because they would have been a better measure of value, than those are or ever have been; for they could have been used by the traveller, at par, in all parts of the United States, without the assistance of an exchange broker. Again, the moral effect of the issuing of small Treasury notes, bearing interest, would be to inspire the young and the weak with confidence in the National Government; for such currency would protect them against the acts and the arts of the strong and the wealthy, the scheming and the cunning, by securing to them the little surplus they might produce, instead of depriving them of it, as the State Governments have done, by authorizing the issue of bank-notes, as money, and then refusing to redeem them, after the bank that issued them had failed. State Bank failures have been to laborers direct robbery, legalized; and the effect of this kind of robbery has been, extravagance and demoralization. When the laborer has finished his work for the week, and has received the payment for it in notes of State Banks, of doubtful responsibility, his practice has been to pay them away immediately, while he could get something for them, whether his needs required their use or not, for to-morrow they might be worthless; and the consequence has been, that laborers are victims of extravagance and dissipation. Once more: small Treasury notes issued by the National Government would affect the business of the people, as a balance-wheel affects a steam-engine, it would keep business movements as steady as the expenses of the government. When business is good, and the receipts of the government large, its notes, as a circulation, will decrease; and when business is bad, and its receipts small, they will increase. This effect on business would be the reverse of that produced by State Banks, whether chartered or free; and as State Banks have done, National Free Banks will do. They will increase circulation when business is good, and thus stimulate speculation; and decrease it when business is bad, and thus bring on financial revulsions.

Certificate of Indebtedness.

On the 1st of March, 1862, it was "*enacted by the Senate and House of Representatives in Congress assembled*, that the Secretary of the Treasury be, and he is hereby authorized to cause to be issued to any public creditor, who may be desirous to receive the same, upon requisition of the head of the proper department, in satisfaction of audited and settled demands against the United States, certificates for the whole amount due, or parts thereof, not less than one thousand dollars; * * * * * which certificates shall be payable in one year from date, or earlier, at the option of the government, and shall bear interest at the rate of six per centum per annum."

This law was enacted, as appears by its date, just one month after the agreement of August 15th, 1861, had expired by limitation ; by which the bankers had agreed to take one hundred and fifty millions of United States notes bearing seven three-tenths per annum interest, provided the Secretary of the Treasury would not issue any other United States stocks, bonds, or treasury notes, " except notes payable on demand, &c. ;" and it shows pretty clearly, that the Secretary of the Treasury had learned what the bankers understood by the " except notes payable on demand," inserted in the August agreement. The Secretary was the servant of the government, by virtue of his office, and the servant of the bankers by virtue of the " except, &c. ;" but in serving two masters he seems to have discovered that he could not manage the finances of the government without at least partially conforming to the laws of trade, by issuing interest-bearing notes—certificates of indebtedness—in payment of debts, instead of demand notes that are a legal tender. Hence the above law. Yet, in this law there is pretty strong evidence, that the parties who concocted the August agreement, engineered it through Congress. The banks having suspended specie payments more than two months before this law was enacted, the bankers could not expect to have the agreement of August 15th, renewed or extended ; therefore they, or somebody else, did the next best thing, to keep interest-bearing notes out of circulation as currency ; which was to insert, or to have inserted in the law, the thousand dollar clause. The August agreement was, that no United States notes should be issued, " except payable on demand ;" the law is, that no interest-bearing note shall be issued for less than one thousand dollars. Was this similarity accidental ?

The effect of both the agreement and the law has been the withholding of United States Treasury notes from the people, who would have used them as currency, could they have had them instead of State bank-notes. This the bankers knew, or at least anticipated ; hence the one thousand dollar provision in the law of March 1st, 1862. The consequence of this has been that those who consented to receive the one thousand dollar interest-bearing certificates have, when they could do so, deposited them in State banks at par, and taken their demand notes for currency ; and when they could not deposit them at par, they have sold them at a discount for demand notes which they could use. In both cases, those who were probably the real creditors of the government did not receive the interest ; but money dealers and bankers, who were probably debtors to somebody, if not to the government, for a large portion of the amount for which they thus received the interest, and perhaps for the whole. Whereas, had these one year certificates have been paid out in denominations that could have been used as currency, they would have been thus used, and the people who used them and pay in taxes, excise, &c., the interest, would have ultimately received it, after the manner dealers in United States seven-thirty bonds receive the interest on them for the time they may hold them. The financial legerdemain of this one thousand dollar certificate " operation," has been so bunglingly performed, that the people have discovered the mode of " operating," and are beginning to inquire who " coins money and regulates the value thereof." They have their remedy at the ballot-box. United States Treasury notes that bear interest, in denominations that can be used as currency may not be of equal value with gold at all times—they would not be so now ; yet as the government cannot furnish the latter in sufficient quantities for the ordinary exchanges in business, and can furnish the former, that would be, if paid out for government expenses, the best measure of value it can furnish under existing circumstances, provided they are made receivable for all dues to the government, except duties on imports. The exception, probably, would not have been required, had they have been issued before August 15th, 1861 ; and it need not be continued after their value comes to be, as it surely will in time, equal to that of gold.

We read, " the laborer is worthy of his hire," and we hold that the law